

Court Upholds SDRS Legislative Changes

The State of South Dakota Sixth Circuit Court Judge Mark Barnett has upheld the South Dakota State Legislature's 2010 modification of the cost-of-living adjustment (COLA) to the South Dakota Retirement System retirement benefits. In 2010, legislation was passed to change the annual COLA to range from a minimum of 2.1 percent to a maximum of 3.1 percent, depending on the system's funded status.

Prior to the Legislature's action in 2010, the SDRS actuaries had concluded that the investment downfall of 2008 and 2009 had distressed the actuarial soundness of the retirement system. Based on the existing benefit design and financial condition of the system, SDRS was faced with the fact that the on-going contributions were

not adequate to fund the system's benefits and that a correction was needed in the benefit plan design to bring SDRS back into balance and improve the sustainability of the system.

A retired Rapid City judge filed a lawsuit challenging the constitutionality of the Legislature's action, claiming the legislation unlawfully modified a contractual right to an unalterable annual 3.1 percent COLA.

The Honorable Mark Barnett ruled that the plaintiff has no contractual right to a guaranteed "forever" 3.1 percent COLA. The trial court determined that the Legislature has the authority to modify the COLA in order to maintain the financial integrity of the system.



Nationwide Retains SRP and SPP Administration Contract

Nationwide Retirement Solutions will retain the Supplemental Retirement Plan (SRP) and Special Pay Plan (SPP) third-party administrator contract to provide recordkeeping, marketing, and educational and financial planning services to the SDRS membership.

With the pending expiration of the current third-party administrator contract effective June 30, 2012, the South Dakota Retirement System Board of Trustees issued a request for proposal (RFP) in December 2011 for an initial five-year contract period beginning July 1, 2012.

Four firms—Nationwide Retirement Solutions, VALIC, Prudential, and ICMA-RC—submitted proposals to provide third-party administrator services for the SRP and SPP. The proposals were evaluated by SDRS

management for both technical and financial aspects and the final approval was made by the SDRS Board of Trustees.

Nationwide Retirement Solutions received the highest technical score while also attaining consideration for the lowest cost proposal. Effective July 1, 2012, when the new contract is implemented, SRP and SPP participants will receive enhanced services and a fee structure approximately 20 percent lower than the current fee structure.

The initial contract period expires June 30, 2017, but may be extended for two optional, separate five-year contract periods that are subject to review and satisfactory negotiation of terms between SDRS and Nationwide Retirement Solutions.

SDRS Offers New Educational Program: *Purses to Portfolios*

As part of our on-going efforts to provide valuable educational opportunities to our members, the South Dakota Retirement System is pleased to offer a new program—***Purses to Portfolios***—as an important addition to other SDRS programs.

Over 60 percent of the current contributing members of SDRS are female. SDRS recognized the need for a broad financial planning tutorial that is focused on improving retirement readiness for our largest membership group. The women of the SDRS Benefit/Member Services department designed much of this program and are also the facilitators for presenting this fun and informative workshop. Watch for the availability of this program in your area on the 2013 SDRS travel schedule.

SDRS continues to offer members other educational programs in their local areas.

The SDRS Regional Retirement Planning Seminar provides, in large group format, an overview of the SDRS plan design and benefits, Social Security benefits, and features of the Supplemental Retirement Plan (SRP) and Special Pay Plan (SPP).

The SDRS Retirement Income Management (RIM) workshop provides an opportunity for small groups of members nearing retirement, along with their spouses, to raise their awareness of some of the challenges they may encounter during retirement by working with SDRS Retirement Planners on income management skills.

SDRS also continues to provide one-on-one retirement consultations with members in communities across the state. This ever-popular program has SDRS Retirement Planners in different cities and towns nearly every week. Technology allows the planners to have access to all member information at their fingertips so members can get a full personal consultation without ever leaving their hometown area.

For more information about SDRS programs and their availability near you, visit the SDRS website at www.sdrs.sd.gov.



SDRS 2012 Proposed Legislation Enacted

The SDRS Board of Trustees proposed three pieces of legislation during the 2012 Legislative Session. Each was passed by the Legislature, signed by the Governor, and becomes effective on July 1, 2012.

Senate Bill 29 permits the SDRS Supplemental Retirement Plan to offer designated Roth accounts. Designated Roth accounts are funded with after-tax dollars, grow without taxes on gains or interest, and, if qualified, are not taxed upon distribution. Because significant programming and education are required before these accounts can be offered, the Board of Trustees anticipates this program will be initiated by July 1, 2013.

Senate Bill 30 provides for the founding of an alternative benefit enhancement methodology based on investment performance that mitigates risk within the South Dakota Retirement System. With the approval of the legislation, SDRS will begin developing the details necessary for the alternative benefit improvement structure that will be based on the funded status of the system. These details will be defined in proposed legislation and submitted to the Legislature for approval.

Senate Bill 31 was a technical corrections bill to adjust and clarify existing statutes relating to SDRS.

The SDRS 2012 legislation and related documents are available on the SDRS website at www.sdrs.sd.gov.



Outlook Interview... Brinkman on Saving

...continued from page 4.

And, at retirement, participants from both plans also have the option to use their savings to purchase a Supplemental Pension Benefit (SPB) from SDRS to enhance their SDRS benefit.

Outlook: What about the 2012 legislation that authorized the Board of Trustees to establish designated Roth accounts in the SRP?

Brinkman: I believe this will be a great retirement planning tool for some of our members. While it will not be initiated until next year, the new designated Roth SRP accounts will be another great alternative for saving for retirement. After-tax contributions can be made to the designated Roth accounts and qualified distributions can be received tax-free.

Outlook: What is your savings advice to SDRS members?

Brinkman: Because there are so many financial uncertainties in retirement—including Social Security, Medicare, cost of retiree healthcare, increasing life expectancy, the potential need for long-term care, inflation, and volatile investment markets—we all need to begin significant savings as early as possible. SDRS is playing a vital role in this by providing sustainable lifetime defined benefits and flexible and efficient personal savings alternatives, all of which offer SDRS members and their families the resources and the opportunities to achieve financial security at retirement.

For more information about the SRP and SPP, contact the Supplemental Retirement Plan office in Pierre at (605) 224-2230. Join today and begin saving!



South Dakota Retirement System
P.O. Box 1098
Pierre, SD 57501

PRSRT STD
U.S. Postage
PAID
Permit #123
Pierre, SD

Outlook *Interview*

*...with Elmer Brinkman
on Saving for Retirement*



Elmer Brinkman

Mr. Brinkman is a County Commissioner for Codington County. He serves as Chair of the SDRS Board of Trustees and represents county commissioners. In the following interview, Mr. Brinkman discusses the importance of personal retirement savings.

Outlook: Saving for retirement issues seems to be in the news every day. What steps has SDRS taken to promote personal savings for retirement?

Brinkman: Personal retirement savings is a very significant issue to SDRS and our members. Specifically, the SDRS Board of Trustees sponsors the Supplemental Retirement Plan (SRP) and the Special Pay Plan (SPP), both of which are designed to help encourage members to save for retirement. In addition, the Board recently established the stated objective for plan members to have personal savings at retirement that is equal to or greater than their annual salary.

Outlook: Is this amount of personal savings in addition to the regular benefits currently provided by SDRS?

Brinkman: Yes. For current career employees with 30 years of service, SDRS will replace approximately 50 percent of pay. Even after Social Security is added to the SDRS benefit, many career SDRS members will still need additional savings to meet the overall recommended income replacement goal in retirement of at least 85 percent of pay. However, the majority of SDRS retirees do

not have 30 years of service at retirement, they retire early, or they will have additional costs in retirement; therefore, additional retirement savings is critical for them to meet these income replacement goals.

Outlook: How can the SRP and SPP help promote retirement savings?

Brinkman: The SRP is designed to provide a member with a voluntary savings program during their working years that shelters both the contributions made to the plan and the income earned on the investments from current income taxes. Participants must pay taxes on the funds as they are withdrawn, but most will be in a lower tax bracket at that time. The Board has also streamlined the enrollment process by making the application very easy to complete. The voluntary contributions can be conveniently deducted from the participant's paycheck and invested in numerous investment options that have been researched and selected by the South Dakota Investment Council. The SPP is similar in nature, but is funded by an eligible member's termination pay.

...continued on page 3.